

**REPORT OF THE AUDIT OF THE
ELLIOTT COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ELLIOTT COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the Elliott County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances decreased by \$1,009,771 from the beginning of the year, resulting in a cash surplus of \$817,807 as of June 30, 2003.

Debt Obligations:

Total bonded debt principal as of June 30, 2003, was \$1,910,000. Future collections of \$3,293,415 are needed to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$1,710,000 as of June 30, 2003. Future principal and interest payments of \$2,734,697 are needed to meet these obligations.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Charles Pennington, Elliott County Judge/Executive

Members of the Elliott County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Elliott County, Kentucky, as of June 30, 2003, and the statement of cash receipts, cash disbursements, and changes in cash balances - governmental fund types for then year then ended. These financial statements are the responsibility of the Elliott County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Elliott County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Elliott County, Kentucky, as of June 30, 2003, and its receipts and disbursements for the year then ended, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated April 13, 2004, on our consideration of Elliott County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Charles Pennington, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Elliott County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 13, 2004

ELLIOTT COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

Charles Pennington	County Judge/Executive
Wilma Littleton	Magistrate
Brian Dillion	Magistrate
Walter Eldridge	Magistrate
Curt Adkins	Magistrate
Billy Wilson	Magistrate
Kermit Vanhoose	Magistrate
Gary Porter	Magistrate

Other Elected Officials:

John Lewis	County Attorney
Charlie Howard	Jailer
Reeda Ison	County Clerk
Delmaine Dickerson	Circuit Court Clerk
Ronnie Stephens	Sheriff
Lovell Mayse	Property Valuation Administrator
Carl Eldridge	Coroner

Appointed Personnel:

Claudette Sturgill	County Treasurer
Fonda Weddington	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

ELLIOTT COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash	\$ 33,208	\$ 287,391	\$ 240,031	\$ 257,371
Total Assets	\$ 33,208	\$ 287,391	\$ 240,031	\$ 257,371
<u>Other Resources</u>				
Amounts to Be Provided in Future Years for:				
Capital Leases (Note 5)	\$ 245,000	\$	\$	\$ 1,368,547
Bond Payments (Note 4)				1,749,082
Total Other Resources	\$ 245,000	\$ 0	\$ 0	\$ 3,117,629
Total Assets and Other Resources	\$ 278,208	\$ 287,391	\$ 240,031	\$ 3,375,000

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

Totals
(Memorandum Only)

\$ 818,001

\$ 818,001

\$ 1,613,547
1,749,082

\$ 3,362,629

\$ 4,180,630

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

	Governmental Fund Types			
	General	Special Revenue	Capital Projects	Debt Service
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Capital Leases (Note 5)	\$ 245,000	\$	\$	\$ 1,465,000
Note Payable (Note 6)	4,000			
Bonds:				
Series 2000 (Note 4)				1,910,000
Total Liabilities	<u>\$ 249,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,375,000</u>
<u>Equity</u>				
Fund Balances:				
Reserved	\$	\$ 13	\$ 240,031	\$
Unreserved	29,208	287,378		
Total Equity	<u>\$ 29,208</u>	<u>\$ 287,391</u>	<u>\$ 240,031</u>	<u>\$ 0</u>
Total Liabilities and Equity	<u><u>\$ 278,208</u></u>	<u><u>\$ 287,391</u></u>	<u><u>\$ 240,031</u></u>	<u><u>\$ 3,375,000</u></u>

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

Totals
(Memorandum Only)

\$ 1,710,000
4,000

1,910,000

\$ 3,624,000

\$ 240,044
316,586

\$ 556,630

\$ 4,180,630

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPES

ELLIOTT COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPES

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 553,359	\$ 720,713	\$ 30,115	\$ 30,384
Other Financing Sources:				
Transfers In	203,309	26,277	66,659	
Borrowed Money				
Total Cash Receipts	<u>\$ 756,668</u>	<u>\$ 746,990</u>	<u>\$ 96,774</u>	<u>\$ 30,384</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 661,124	\$ 625,887	\$ 98,330	\$ 6,063
Other Financing Uses:				
Library Construction Fund - Construction Expenditures				
Elliott County Public Properties Corporation Fund - Miscellaneous Expenditures				
Transfers Out	68,582	197,170		24,441
Bonds:				
Principal Paid				
Interest Paid				
Capital Lease				
Principal Paid	5,000	10,000		
Total Cash Disbursements	<u>\$ 734,706</u>	<u>\$ 833,057</u>	<u>\$ 98,330</u>	<u>\$ 30,504</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 21,962	\$ (86,067)	\$ (1,556)	\$ (120)
Cash Balance - July 1, 2002	<u>10,048</u>	<u>87,071</u>	<u>1,556</u>	<u>120</u>
Cash Balance - June 30, 2003	<u><u>\$ 32,010</u></u>	<u><u>\$ 1,004</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBUREMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPES
For The Fiscal Year Ended June 30, 2003
(Continued)

Special Revenue Fund Type					
Fire Protection Fund	911 Fund	Community Development Block Grant Fund	Tourism Fund	Agricultural and Natural Resources Fund	Elliott County Development Fund
\$ 2,397	\$ 33,236	\$ 19,000	\$ 294,151	\$ 242,313	\$ 55,897
			87		4,000
\$ 2,397	\$ 33,236	\$ 19,000	\$ 294,238	\$ 242,313	\$ 59,897
\$ 2,468	\$ 35,912	\$ 19,283	\$ 295,339	\$ 135,863	\$
					6,139
\$ 2,468	\$ 35,912	\$ 19,283	\$ 295,339	\$ 135,863	\$ 6,139
\$ (71) 84	\$ (2,676) 4,119	\$ (283) 283	\$ (1,101) 1,105	\$ 106,450 125,723	\$ 53,758
\$ 13	\$ 1,443	\$ 0	\$ 4	\$ 232,173	\$ 53,758

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBUREMENTS,
 AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

	Capital Projects Fund Type		Debt Service Fund Type	
	Library Construction Fund	Library Grant Fund	Public Properties Corporation Fund	Totals (Memorandum Only)
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 6,563	\$ 125,196	\$ 160,205	\$ 2,273,529
Other Financing Sources:				
Transfers In				296,332
Borrowed Money				4,000
Total Cash Receipts	\$ 6,563	\$ 125,196	\$ 160,205	\$ 2,573,861
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$	\$ 74,946	\$	\$ 1,955,215
Other Financing Uses:				
Library Construction Fund - Construction Expenditures	1,111,400			1,111,400
Elliott County Public Properties Corporation Fund - Miscellaneous Expenditures			3,250	3,250
Transfers Out				296,332
Bonds:				
Principal Paid			50,000	50,000
Interest Paid			107,435	107,435
Capital Lease Principal Paid		45,000		60,000
Total Cash Disbursements	\$ 1,111,400	\$ 119,946	\$ 160,685	\$ 3,583,632
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (1,104,837)	\$ 5,250	\$ (480)	\$ (1,009,771)
Cash Balance - July 1, 2002	1,344,868	91,203	161,398	1,827,578
Cash Balance - June 30, 2003	\$ 240,031	\$ 96,453	\$ 160,918	\$ 817,807

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Elliott County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Public Properties Corporation as part of the reporting entity.

Public Properties Corporation

The Public Properties Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the fiscal court. The Corporation's governing body consists entirely of the Fiscal Court members. Therefore, management must include the Corporation as a component unit and the Corporation's financial activity has been blended with that of the fiscal court.

Additional - Elliott County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Elliott County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Elliott County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Elliott County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Elliott County Special Revenue Fund Type includes the following county funds: Fire Protection Fund, 911 Fund, Community Development Block Grant Fund, Tourism Fund, Agricultural and Natural Resources Fund, and Elliott County Development Fund.

3) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Library Construction Fund of the Fiscal Court is reported as a Capital Projects Fund Type.

4) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Library Grant Fund and the Public Properties Corporation Fund. Debt Service for the Library Grant Fund is provided through a state grant for the library lease. Debt Service for the Public Properties Corporation Fund is provided through annual lease payments from the Administrative Office of the Courts (AOC) for the Elliott County Courthouse.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amounts to be provided in future years to retire debt are offset by any cash held by the county in a bond or debt service fund.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore, the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Elliott County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Fund (Debt Service Fund) because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Elliott County Fiscal Court: the Elliott County Housing Authority and the Library.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Jointly Governed Organizations

A jointly governed organization is an entity that results from a multi-governmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Northeast Kentucky Regional Industrial Park Authority meets the criteria noted above and is therefore an organization jointly governed by the Kentucky counties of Boyd, Carter, Elliott, Greenup, and Lawrence.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Long-Term Debt

On April 26, 2000, the Public Properties Corporation, a component unit of the Elliott County Fiscal Court, issued \$2,010,000 in First Mortgage Revenue Bonds for the Courthouse Renovation. Semiannual principal and interest payments are required in September and March of each year beginning September 2001. The bonds will be paid in full March 1, 2023.

The Public Properties Corporation is acting as an agent for the Administrative Office of the Courts in order to manage and maintain the Elliott County Courthouse. The Public Properties Corporation expects rentals for use of the Elliott County Courthouse to be in the full amount of the principal and interest requirements of the bonds.

Under the terms of a lease, the Administrative Office of the Courts has agreed to pay directly to the paying agent bank, the use allowances payment as provided in the lease. The lease agreement is renewable each year. The Public Properties Corporation is in reliance upon the use allowance payment in order to meet debt service on the bonds.

The Administrative Office of the Courts with the execution of the lease expressed its intention to continue to pay the full allowance payment. However, the lease does not obligate the Administrative Office of the Courts to do so.

As of June 30, 2003, the principal balance on these bonds was \$1,910,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	105,035	50,000
2005	102,535	55,000
2006	99,785	55,000
2007	96,980	60,000
2008	93,920	60,000
2009-2013	417,880	360,000
2014-2018	308,360	475,000
2019-2023	158,920	795,000
Totals	<u>\$ 1,383,415</u>	<u>\$ 1,910,000</u>

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Capital Leases

- A. On September 27, 2001, the Elliott County Fiscal Court entered into a lease agreement with the Kentucky Area Development Districts Financing Trust to finance the completion of the renovation of the County's Courthouse facility in the amount of \$240,000. The agreement requires two semiannual interest payments be made in March and September of each year. Principal payments are due in September of each year to be paid in full September 20, 2026. As of June 30, 2003, the principal balance remaining was \$235,000. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	12,279	5,000
2005	12,066	5,000
2006	11,854	5,000
2007	11,641	5,000
2008	11,420	5,000
2009-2013	53,060	35,000
2014-2018	41,518	50,000
2019-2023	26,730	65,000
2024-2027	6,719	60,000
Totals	<u>\$ 187,287</u>	<u>\$ 235,000</u>

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Capital Leases (Continued)

- B. On December 20, 2001, the Elliott County Fiscal Court entered into a lease agreement with the Kentucky Area Development Districts Financing Trust for the construction of the Elliott County Public Library in the amount of \$1,510,000. Semiannual principal and interest payments are required in May and November of each year. As of June 30, 2003, the principal balance on these bonds was \$1,465,000. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	71,165	50,000
2005	69,415	50,000
2006	67,540	50,000
2007	65,440	55,000
2008	63,130	55,000
2009-2013	272,940	335,000
2014-2018	178,370	430,000
2019-2023	49,410	440,000
Totals	<u>\$ 837,410</u>	<u>\$ 1,465,000</u>

- C. On August 7, 2001, the Elliott County Fiscal Court entered into a lease agreement with Kenneth Lee Gambill and Ruth Lillian Gambill to purchase property in the amount of \$33,000. The agreement requires three annual principal payments to be paid in full August 15, 2003. As of June 30, 2003, the principal balance remaining was \$10,000. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	<u>\$ 0</u>	<u>10,000</u>
Totals	<u>\$ 0</u>	<u>\$ 10,000</u>

Note 6. Note Payable

On December 17, 2002, the Elliott County Fiscal Court entered into a loan agreement with First National Bank of Grayson in the amount of \$4,000. This loan is a requirement of Elliott County Ordinance No. 2 pertaining to a job development assessment fee for individuals employed in the Elliott County Economic Development Area. This amount is due to be paid off on December 17, 2003. As of June 30, 2003, the principal outstanding was \$4,000. Future principal and interest due is \$4,035.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 7. Insurance

For the fiscal year ended June 30, 2003, Elliott County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

ELLIOTT COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 547,334	\$ 553,359	\$ 6,025
Road and Bridge Fund	724,575	720,713	(3,862)
Jail Fund	78,201	30,115	(48,086)
Local Government Economic Assistance Fund	21,210	30,384	9,174
<u>Special Revenue Fund Type</u>			
Fire Protection Fund	2,825	2,397	(428)
911 Fund	36,100	33,236	(2,864)
Community Development Block Grant Fund	19,000	19,000	
Tourism Fund	1,000	294,151	293,151
Agricultural and Natural Resources Fund	1,000	242,313	241,313
Elliott County Development Fund	12,865	55,897	43,032
<u>Debt Service Fund Type</u>			
Library Grant Fund	216,370	125,196	(91,174)
Totals	<u>\$ 1,660,480</u>	<u>\$ 2,106,761</u>	<u>\$ 446,281</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 1,660,480
Add: Budgeted Prior Year Surplus			693,415
Less: Other Financing Uses			<u>(28,571)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 2,325,324</u>

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SCHEDULE OF OPERATING REVENUE

ELLIOTT COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>GOVERNMENTAL FUND TYPES</u>				
<u>Revenue Categories</u>	<u>General Fund Type</u>	<u>Special Revenue Fund Type</u>	<u>Capital Projects Fund Type</u>	<u>Debt Service Fund Type</u>
Taxes	\$ 199,892	\$ 35,617	\$	\$
In Lieu Tax Payments	10,010			
Licenses and Permits	987			
Intergovernmental Revenues	1,085,240	555,118		275,780
Charges for Services	864			
Miscellaneous Revenues	36,713	55,796		250
Interest Earned	865	463	6,563	9,371
Total Operating Revenue	<u>\$ 1,334,571</u>	<u>\$ 646,994</u>	<u>\$ 6,563</u>	<u>\$ 285,401</u>

ELLIOTT COUNTY
SCHEDULE OF OPERATING REVENUE
For The Fiscal Year Ended June 30, 2003
(Continued)

Totals
(Memorandum
Only)

\$ 235,509

10,010

987

1,916,138

864

92,759

17,262

\$ 2,273,529

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

ELLIOTT COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

GENERAL FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 374,297	\$ 342,796	\$ 31,501
Protection to Persons and Property	50,450	166,982	(116,532)
General Health and Sanitation	16,850	18,440	(1,590)
Social Services		300	(300)
Recreation and Culture	46,441	66,476	(20,035)
Roads	470,180	579,546	(109,366)
Road Facilities	1,000	17,830	(16,830)
Debt Service		13,991	(13,991)
Administration	482,326	185,043	297,283
Total Operating Budget - General Fund Type	\$ 1,441,544	\$ 1,391,404	\$ 50,140
Other Financing Uses:			
Capital Lease Agreement- Principal on Lease	28,571	15,000	13,571
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 1,470,115</u>	<u>\$ 1,406,404</u>	<u>\$ 63,711</u>
SPECIAL REVENUE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 34,225	\$ 34,268	\$ (43)
General Health and Sanitation	19,283	19,283	
Recreation and Culture	590,000	431,202	158,798
Debt Service	4,199		4,199
Administration	19,569	4,112	15,457
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 667,276</u>	<u>\$ 488,865</u>	<u>\$ 178,411</u>

ELLIOTT COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Expenditure Categories	DEBT SERVICE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Debt Service	\$ 74,946	\$ 74,946	\$
Administration	96,558		96,558
Total Operating Budget - Debt Service Fund Type	\$ 171,504	\$ 74,946	\$ 96,558
Other Financing Uses:			
Capital Lease Agreement-			
Principal on Lease	45,000	45,000	
TOTAL BUDGET - DEBT SERVICE FUND TYPE	\$ 216,504	\$ 119,946	\$ 96,558

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

Honorable Charles Pennington, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Elliott County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated April 13, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Elliott County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Elliott County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 13, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

Honorable Charles Pennington, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Elliott County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Elliott County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Elliott County's management. Our responsibility is to express an opinion on Elliott County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Elliott County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Elliott County's compliance with those requirements.

In our opinion, Elliott County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Elliott County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Elliott County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 13, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ELLIOTT COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2003

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Elliott County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Elliott County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Elliott County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Elliott County reported in Part C of this schedule.
7. The program tested as a major program was: Intermodal Surface Transportation Efficiency Act – Laurel Gorge Welcome Center (CFDA # 20.205)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Elliott County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

None

REPORTABLE CONDITIONS:

None

NONCOMPLIANCES:

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ELLIOTT COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grants - Phase 3 - Water Line Extention Project (CFDA # 14.228)		
	B-99-DC-21-001(053)	\$ 19,283
<u>U.S. Department of Transportation</u>		
Passed-Through State Department of Transportation:		
Intermodal Surface Transportation Efficiency Act-		
Laurel Gorge Welcome Center (CFDA #20.205)		
	C-01201355	289,144
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants-		
Disaster Recovery		
July 2001 Flooding	FEMA-DR-1388-KY	93,292
March 2002 Flooding	FEMA-DR-1407-KY	9,117
February 2003 Ice Storm and Flooding (CFDA #83.544)	FEMA-DR-1454-KY	<u>115,339</u>
Total Cash Expenditures of Federal Awards		<u>\$ 526,175</u>

ELLIOTT COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Elliott County, Kentucky, and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

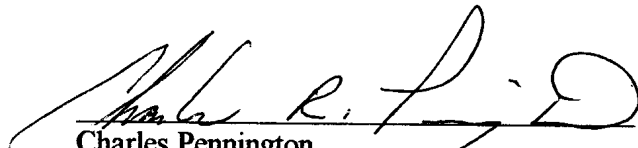
ELLIOTT COUNTY FISCAL COURT

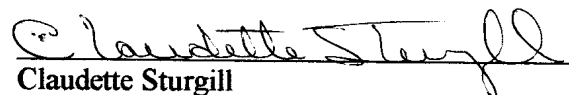
For The Fiscal Year Ended
June 30, 2003

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
ELLIOTT COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Elliott County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Charles Pennington
County Judge/Executive


Claudette Sturgill
County Treasurer

